



# Management and Inspector General Road Rules in Enterprise Risk Management

June 16, 2016

# Introductions/Opening Remarks

## **Speakers:**

- Deb Jeffrey, Inspector General, Corporation National Community Service
- Bob Westbrook, Inspector General, Pension Benefit Guaranty Corporation

## **Moderator:**

- Cynthia Vitters, Chief Risk Officer, Federal Student Aid

# Learning Objectives

1. Overview of Inspector General Responsibilities
2. Independence Standards
3. Understanding the role of the Inspector General in Enterprise Risk Management
4. Establishing an effective relationship with the Inspector General
5. Leveraging the work of the Inspector General

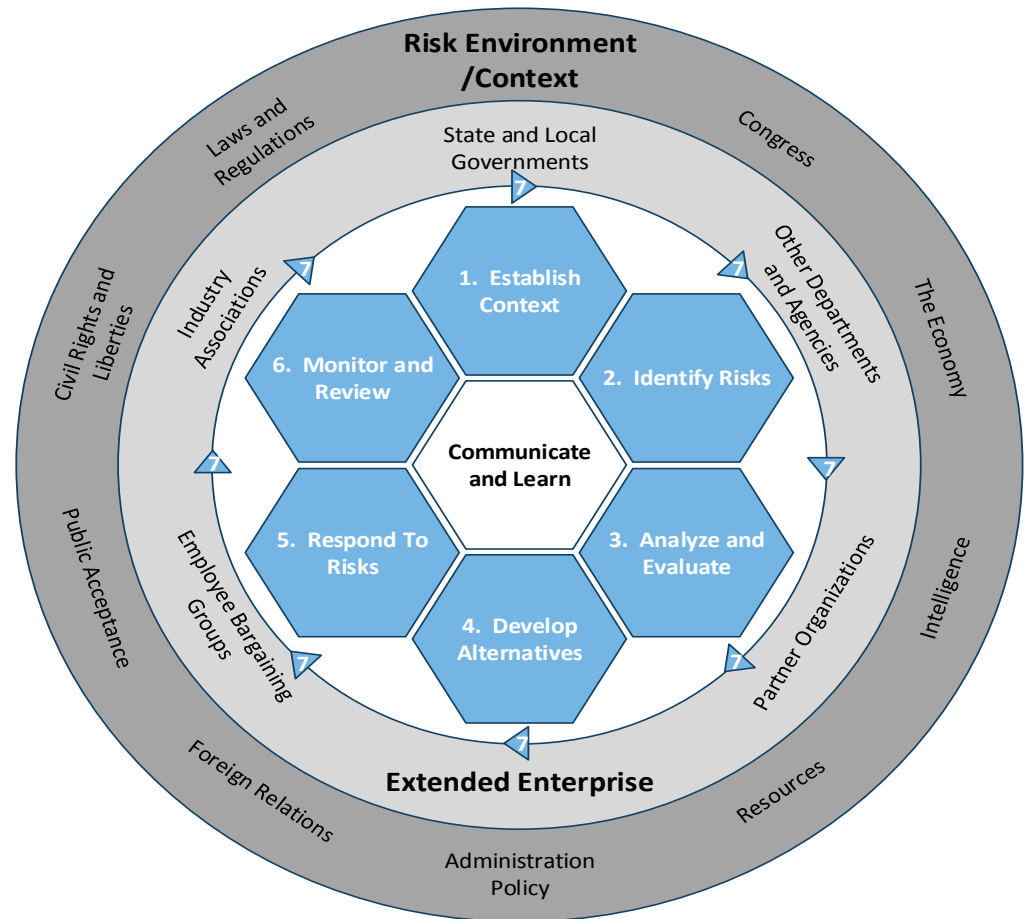
# Draft A-123 Excerpt

Successful implementation of this Circular will require Agencies to establish an open, transparent culture that encourages people to communicate information about potential risks and other concerns with their superiors without fear of retaliation or blame. Similarly, ***agency managers, Inspector Generals and other auditors will have to establish a new set of parameters encouraging the free flow of information about agency risk points and corrective measure adoption.*** An open and transparent culture will result in the earlier identification of risk, allowing the opportunity to develop a collaborative response, ultimately leading to a more resilient government.

# Enterprise Risk Management

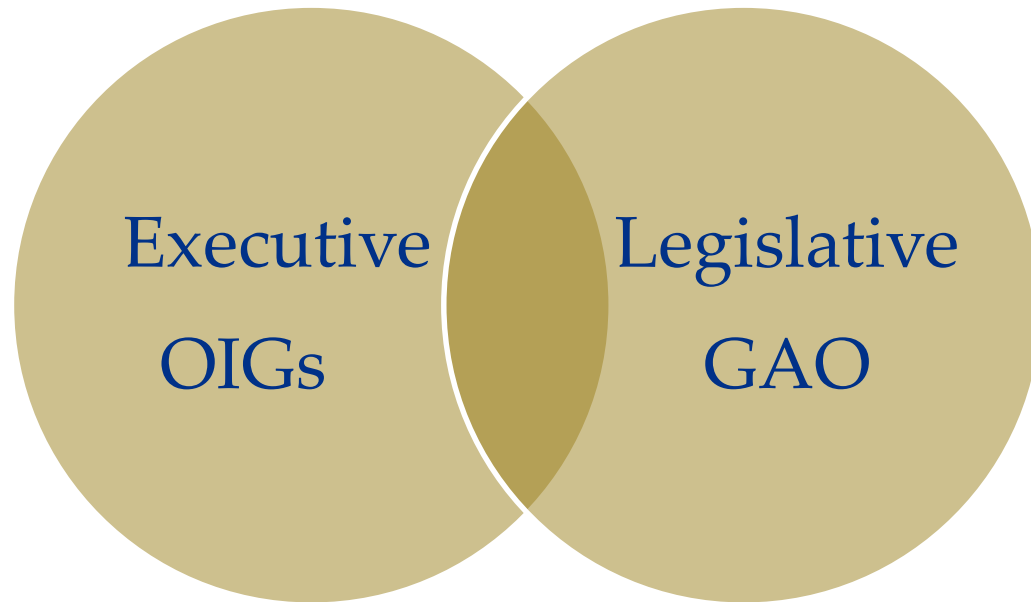
**Enterprise Risk Management (ERM)** is a discipline which deals with identifying, assessing, and managing risks across an enterprise.

The approaches and tools have been developed and refined by the private sector over time, and international, State, and local governments have shown ERM can be applied successfully in the public sector.



# Inspector General Act of 1978

OIGs and GAO perform audits of agency programs and operations, but have different responsibilities and are required to avoid duplication and insure effective coordination.



# Inspector General Act of 1978

Inspectors General are appointed:

- without regard to political affiliation
- solely on the basis of integrity and demonstrated ability in accounting, auditing, financial analysis, law, management analysis, public administration, or investigations.

Inspectors General apply their individual professional judgment in carrying out their responsibilities under the IG Act, in compliance with professional standards, and in their unique environment.

# Inspector General Act of 1978

## Offices of Inspectors General—

1. Conduct and supervise audits and investigations relating to agency programs and operations
2. Provide leadership and coordination and recommend policies for activities designed (A) to promote economy, efficiency, and effectiveness in the administration of, and (B) to prevent and detect fraud and abuse in, such programs and operations; and
3. Provide a means for keeping the head of the establishment and the Congress fully and currently informed about problems and deficiencies relating to the administration of such programs and operations and the necessity for and progress of corrective action.



# Government Auditing Standards

## GAGAS Section 3.14 (Conceptual Framework for Independence)

- b. Self-review threat - the threat that an auditor or audit organization that has provided nonaudit services will not appropriately evaluate the results of previous judgments made or services performed as part of the nonaudit services when forming a judgment significant to an audit;
  
- f. Management participation threat - the threat that results from an auditor's taking on the role of management or otherwise performing management functions on behalf of the entity undergoing an audit;

# CIGIE Quality Standards for Federal Offices of Inspector General (2012) (the “Silver Book”)

The IG and OIG staff must be free both in fact and appearance from personal, external, and organizational impairments to independence. The IG and OIG staff has a responsibility to maintain independence, so that opinions, conclusions, judgments, and recommendations will be impartial and will be viewed as impartial by knowledgeable third parties. The IG and OIG staff should avoid situations that could lead reasonable third parties with knowledge of the relevant facts and circumstances to conclude that the OIG is not able to maintain independence in conducting its work.

# CIGIE Quality Standards for Federal Offices of Inspector General (2012) (the “Silver Book”)

The Silver Book specifically incorporates and restates the GAGAS conceptual framework for independence and notes that the independence standard is based on two overarching principles (and applies to all OIG activities:

- a. OIGs should not perform management functions or make management decisions; and
- b. OIGs should not audit their own work or provide nonaudit services in situations where the amounts or services involved are significant and/or material to the subject matter of the audit.”

# CIGIE Quality Standards for Federal Offices of Inspector General (2012) (the “Silver Book”)

The Silver Book also cautions:

“In addition to its application to OIG audit activities, the first overarching principle should be applied broadly to all OIG activities. Specifically, OIG staff, and others under OIG direction, should not perform management functions or make management decisions for their agency.”

# Inspector General Act of 1978

Offices of Inspectors General have independent and objective insights on agency risks and report risks through:

- Audit and evaluation reports
- Investigative reports
- Management advisories
- Semiannual reports to Congress
- Annual top management challenges report
- Other communications

OIG reports are generally publicly available and by law must be posted on the OIG website within three days.



# Three Lines of Defense

*Example from the Pension Benefit Guaranty Corporation OIG, other agencies may require different structures.*



# OIG's role in ERM may include:

- Identifying risks
- Reviewing the management of key risks
- Evaluating the reporting of key risks
- Evaluating risk management processes
- Providing recommendations that risks are correctly evaluated
- Providing recommendations on the risk management process

# Management is responsible for:

- Setting the risk appetite
- Imposing risk management processes
- Management assurance on risks
- Making decisions on risk responses
- Implementing risk responses
- Accountability for risk management



# Discussion Questions

Should Management and OIGs follow a one size fits all approach to ERM?

# Discussion Questions

What are ways to build trust between Management and the OIG?

# Discussion Questions

Does Management and the OIG have a responsibility to communicate risk with Congress?

# Discussion Questions

What are ways Management and OIG can  
“collaborate?”

# Discussion Questions

Can Management leverage Inspector General Management Challenges in its ERM process?

# Discussion Questions

Should Management not communicate ERM plans with the Inspector General?